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Reporting of UNDP income from cost recovery*

Summary

This report presents UNDP current thinking on how to provide the Executive Board with additional options on extra-budgetary income reporting. It includes an overview of how cost recovery income is currently taken into account and reported on within the framework of the biennial support budget estimates. It also presents some preliminary elements for providing further transparency in reporting of such income.

The Executive Board may wish to provide guidance on these suggestions in order to help UNDP to further refine concrete options in response to Board concerns.

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* The need for additional analysis has delayed submission of the present document.

I. Background

1. In its decision 2004/30, the Executive Board requested UNDP "to report at the first regular session in 2005 on options for transparent reporting on income from cost recovery, including the possibility of including such income in calculating the next biennial support budget".

2. This report is intended as an update on UNDP thinking regarding more transparent reporting of extrabudgetary income, and a basis for the Executive Board to provide guidance. It includes an overview of how cost recovery income is currently taken into account in formulating the biennial support budget estimates, using UNDP budget estimates for the biennium 2004-2005 (DP/2003/28) as a reference. Furthermore, it highlights the key tables included in the budget document in order to report on income earned through cost recovery. In line with the request contained in decision 2004/30, some preliminary elements are presented for providing further transparency in reporting of such income.

II. Progress report

3. Only three months have passed since the Executive Board requested that UNDP present additional options for income reporting. The expectation of the Board was to arrive at a clear picture of the amounts of cost recovery income earned from various sources, as well as the utilization of that income.

4. UNDP currently has a decentralized system of resource mobilization; consequently, the utilization of cost recovery income is also decentralized. The bulk of income earned from cost recovery, therefore, remains with country offices.

5. The total income from cost recovery captured in the biennial support budget consists of four items:

(a) The balance of income carried forward;

(b) Income earned from services to United Nations organizations at the country office level. This is done on the basis of a transaction-based universal price list for services using a fee-for-service approach;

(c) Income earned from services to United Nations organizations at the headquarters level. This is done on the basis of service-level agreements between UNDP and the respective client agencies;

(d) Income earned from cost recovery from UNDP programmes funded from other resources. This is based on UNDP cost recovery policy, which is on average 3 per cent for programme country cost sharing, and between 5 to 7 per cent for third party cost-sharing and trust funds.

6. Currently, income earned from these sources is not captured discreetly by category in the biennial support budget document. This is a result of the limitations of UNDP legacy systems.

7. 2004 was the first year of implementation for the UNDP Enterprise Resource Planning (ERP) system or Atlas. As part of the new system design, the various types of income from cost recovery are being tracked separately. However, at this stage

UNDP has not financially closed the year; therefore, no aggregate figures for cost recovery by category are yet available.

III. Overview of present reporting

8. The key UNDP document that details the expected income from cost recovery and its utilization is the biennial support budget (DP/2003/28), which includes the UNDP resource plan (table 1, reproduced here in annex 1 for ease of reference). At the aggregate level, the resource plan provides a breakdown of UNDP resources between regular resources and other resources.

9. The other resources are further broken down between donor co-financing and government cost-sharing. In the 'use of resources' section of this table, the programme delivery estimates and the biennial support budget estimates – comprising programme support (country offices and headquarters, management and administration) and support to operational activities of the United Nations (country offices, the United Nations Development Group Office, United Nations Volunteers and the Inter-Agency Procurement Services Office) – are also included for both regular and other resources.

10. Summary table 5 of document DP/2003/28 provides a listing of all the positions at various levels that are funded from cost recovery income. Summary tables 6(a) and 6(b) of the same document provides a detailed breakdown of the cost recovery income by organizational unit and cost category, respectively.

11. There are three reasons why the ratio between the total biennial support budget estimates from other resources and the total programme delivery estimates from other resources do not properly reflect the average cost recovery rate:

(a) In the current systems, no distinction is made between income earned through programme support and income earned through agency services;

(b) Not all extra-budgetary income is earned on the basis of a percentage. UNDP provides implementation support services for which cost recovery is based on a fee-for-service concept;

(c) Biennial support budget requirements are not based solely on income expected to be earned within the same biennium based on the cost recovery policy. The old cost recovery policy allowed the use of interest earned for providing support, thus distorting the overall cost recovery percentage. Furthermore, the calculation of full biennial support budget requirements is based on balances that are available from prior years from cost recovery, as well as what would be available through the regular resources budget.

IV. Elements for more transparent reporting

12. UNDP is proposing a two-step approach, based on the availability of data coming out of the newly implemented Atlas system:

(a) As part of the 2006-2007 biennial support budget, there could be a table for income earned from programme support, as well as for income earned for

services to United Nations organizations. It would be proper to report all cost recovery relating to agency services in the 'Reimbursement for services' category rather than including them in the 'Utilization of resources – Programme and support activities' section.

(b) As part of the 2008-2009 biennial support budget, there could be a more detailed breakdown of the income earned from programme support to indicate the source of funds, i.e., programme country cost-sharing versus third-party cost-sharing and trust funds.

13. The Atlas system will greatly facilitate this task, and the Administrator is committed to providing a more transparent report within the context of the UNDP budget estimates for the biennium 2008-2009.

14. The annex table is an illustration of the proposed elements above and could be added to the biennial support budget document focusing only on cost recovery income (figures are used for illustrative purposes only).

Annex 1. UNDP resource plan

	2002-2003								2004-2005							
	Donor resources				Local resources				Donor resources				Local resources			
	Regular resources	Other resources (Donor Co-financing)	Total donor resources		Other resources (Government cost-sharing)		Total resources		Regular resources	Other resources (Donor co financing)	Total donor resources		Other resources (Government cost-sharing)		Total resources	
Resources available	$	$	$	%	$	%	$	%	$	$	$	%	$	%	$	%
Opening balance	34.3	646.3	680.6		618.7		1 299.3		29.1	519.3	548.4		819.9		1 368.3	
Income																
Contributions	1 700.0	1 329.5	3 029.5		2 002.8		5 032.3		1 700.0	1 807.0	3 507.0		2 100.0		5 607.0	
Other a/	-	50.8	50.8		81.1		131.9		-	50.0	50.0		76.0		126.0	
Reimbursement for services	-	26.1	26.1				26.1		-	25.9	25.9				25.9	
Total	1 734.3	2 052.7	3 787.0		2 702.6		6 489.6		1 729.1	2 402.2	4 131.3		2 995.9		7 127.2	
Use of resources - Programme and support activities																
A Programmes	1 176.1	1 276.5	2 452.6	83.5	1 807.7	96.0	4 260.3	88.4	1 121.0	1 873.0	2 994.0	83.3	1 878.0	96.3	4 872.0	87.9
B Programme support																
1. Country offices b/	212.6	56.7	269.3	9.2	58.0	3.1	327.3	6.8	243.7	92.1	335.8	9.3	55.2	2.8	391.0	7.1
2. Headquarters	59.9	40.5	100.4	3.4	74	0.4	107.8	2.2	70.5	47.2	117.7	3.3	6.2	0.3	123.9	2.2
Total programme support	272.5	97.2	369.7	12.6	65.4	3.5	435.1	9.0	314.2	139.3	453.5	12.6	61.4	3.1	514.9	9.3
C Management and administration	109.3	6.7	116.0	3.9	96	0.5	125.6	2.6	127.0	176	144.6	4.0	11.0	0.6	155.6	2.8
Total	1 557.9	1 380.4	2 938.3	100.0	1 882.7	100.0	4 821.0	100.0	1 562.2	2 029.9	3 592.1	100.0	1 950.4	100.0	5 542.5	100.0
Support to operational activities of the United Nations																
D Programme support to resident coordinators	26.5	-	26.5		-		26.5		24.0	-	24.0		-		24.0	
E UNV Special Voluntary Fund c/	-	137.0	137.0				137.0		-	175.0	175.0				175.0	
F Country offices b/	92.5	-	92.5		-		92.5		104.6	-	104.6		-		104.6	
United Nations Development Group Office	2.7	0.3	3.0		-		3.0		2.9	0.8	3.7		-		3.7	
United Nations Volunteers	24.5	5.7	30.2		-		30.2		25.5	8.0	33.5		-		33.5	
Inter-Agency Procurement Services Office	1.1	10.0	11.1		-		11.1		1.0	12.0	13.0		-		13.0	
Subtotal	120.8	16.0	136.8		-		136.8		134.0	20.8	154.8		-		154.8	
Total	147.3	153.0	300.3		-		300.3		158.0	195.8	353.8		-		353.8	
TOTAL	1 705.2	1 533.4	3 238.6		1 882.7		5 121.3		1 720.2	2 225.7	3 945.9		1 950.4		5 896.3	
Closing balance	29.1	519.3	548.4		819.9		1 368.3		8.9	176.5	185.4		1 045.5		1 230.9	
Biennial support budget																
Total net budget estimates d/	502.6	119.9	622.5		75.0		697.5		575.2	177.7	752.9		72.4		825.3	
Estimated income and adjustments																
Reimbursement for services	-	26.1	26.1				26.1		-	25.9	25.9				25.9	
Income to the budget	64.3	-	64.3		-		64.3		70.3	-	70.3		-		70.3	
Subtotal	64.3	26.1	90.4		-		90.4		70.3	25.9	96.2		-		96.2	
TOTAL GROSS BUDGET ESTIMATES	566.9	146.0	712.9		75.0		787.9		645.5	203.6	849.1		72.4		921.5	

a/ Includes interest and miscellaneous income

b/ The 2002-2003 approved amounts have been adjusted to reflect the new percentage distribution of 26 per cent for support to operational activities of the United Nations, as described in section II.D.2

c/ Includes financial value of volunteer assignments that are charged directly to agencies and partners

d/ Includes items B, C, and F

Note: When amounts between different tables in the present document are cross-referenced, there may be differences of +/- 0.1 due to rounding.

Annex 2. Cost recovery income estimates (model)

	Other resources income
	2006-2007
Balance brought forward	$ x
Total income estimate from programme activities	$ x
- Income from third party cost-sharing and trust funds	$ x
- Income from programme country cost-sharing	$ x
Sub-total	$ x
Total income estimate from agency services	
- Income from services to United Nations agencies at headquarters	$ x
- Income from services to United Nations agencies at the country level	$ x
Sub-total	$ x